Docket:	:	A.06-07-018
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Christine Walwyn
DRA Project Mgr.	:	Yoke Chan

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN DIXON DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2007-2008 and
Escalation Years 2008-2009 and 2009-2010
Application 06-07-018

For authority to increase water rates located in its
Dixon District serving portions of
Dixon and vicinity, Solano County.

San Francisco, California
December 1, 2006

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APPENDIX A – QUALIFICATIONS AND PREPARED TESTIMONY

MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this report in the California Water Service Company's ("CWS") rate case proceeding A.06-07-018. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $ 437,730 or 34.8 % in fiscal year 2007-2008; by $249,500 or 14.7% in fiscal year 2008-2009; and by $249,500 or 12.8% in fiscal year 2009-2010 in its Dixon District service area. DRA presents its analysis and recommendations associated with the Applicant's request.

Yoke Chan serves as DRA's project coordinator in this review and is responsible for the overall coordination in the preparation of this report. DRA's witnesses' prepared qualifications and testimony are contained in Appendix A of this report.

DRA's legal counsel for this case is Selina Shek.

DRA's recommendation on Cost of Capital is discussed under separate cover.

EXECUTIVE SUMMARY

CWS requested an increase of 34.8% in Test Year 2007-08 and 14.7% in Escalation Year 2008-09, whereas DRA recommends an increase of 22.7% in Test Year 2007-08 and inflationary increases for the escalation years.

Key Recommendations

DRA's recommendations are based lower estimates of Operation and Maintenance expenses (Chapter 3), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.54% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In addition, DRA recommends the following treatment to CWS' Special Requests as discussed further in Chapter 12:

(a) Water Quality

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA has reviewed CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

(b) Water Revenue Adjustment Mechanism

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

(c) Filing an offset rate increase in 2008 to reflect the General Office allocation adopted in CWS' 2007 GRC

CWS requests authorization to file an offset rate increase in 2008 to reflect the general office allocation adopted in its 2007 general rate case filing. This was excluded in the scope of this proceeding.

(d) GO Synergy Memorandum Account

CWS requests to amortize the General Office synergies memorandum account adopted in D. 03-09-021 and merger savings established in D. 04-04-041. DRA reviews and agrees with CWS' request.

(e) To amortize all balancing and memorandum accounts

CWS requests authority to amortize all balancing and memorandum account balances in this district. DRA agrees that all balancing and memorandum accounts should be amortized.

(f) An early ex parte order to update Rule 15

CWS requests an early ex parte order to update Rule 15 to increase the water supply special facilities fee in this district. DRA recommends the lot fee be increased from CWS' proposed $1,000 to $1,760.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Plant in Service	Joyce Steingass
8	Depreciation Expenses and Reserve	Joyce Steingass
9	Rate Base & Net to Gross Multiplier	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Steingass, Chan, Thompson
13	Escalation Year Increases	Yoke Chan

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This report sets forth the analysis and recommendations of DRA pertaining to A. 06-07-018, CWS' general rate increase request for Test Year 2007-2008 and Escalation Years 2008-2009 and 2009-2010.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for the Test Year 2007-2008 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

The total revenues requested by CWS are as follows:

Year	Amount of Increase	Percent
2007-2008	$ 437,730	34.8%
2008-2009	$ 249,500	14.7%
2009-2010	$ 249,500	12.8%

CWS estimates that its proposed rates in the application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2007-2008	9.89%	12.37%
2008-2009	9.89%	12.37%
2009-2010	9.89%	12.37%

D. CONCLUSION

DRA recommends a revenue increase for the test year as follows (Escalation Years 2008-2009 and 2009-2010 are covered in Chapter 13):

Year	Amount of Increase	Percent
2007-08	$285,300	22.7%

The last general rate increase for CWS was authorized by D. 03-09-021 in Application A. 01-09-062 et. al, resulting in a rate of return on rate base of 8.90% in 2004. Present Rates used by DRA in this report are based on Advice Letter 1759, which became effective January 1, 2006 as authorized by D. 03-09-021.

A comparison of DRA's and CWS' estimates for rate of return on rate base for the Test Year 2007-2008 and Escalation Year at the present and the utility's proposed rates is shown below:

	RATE OF RETURN					
	DRA		CWS		Diff	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Present Rates	4.39 %	3.54%	4.02%	3.02%	-0.37%	-0.52%
Proposed Rates	10.47%	10.97%	9.89%	9.89%	- 0.58%	-1.08%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,258.9	1,258.9	0.0	0.0%
Operating expenses:				
Operation & Maintenance	536.3	547.8	11.5	2.1%
Administrative & General	43.9	43.9	0.0	0.0%
G. O. Prorated Expense	245.1	258.7	13.6	5.5%
Dep'n & Amortization	151.0	150.9	(0.1)	-0.1%
Taxes other than income	54.3	54.9	0.6	1.1%
State Corp. Franchise Tax	2.6	(0.7)	(3.3)	-127.5%
Federal Income Tax	46.5	33.6	(13.0)	-27.9%
Total operating exp.	1,079.6	1,089.2	9.7	0.9%
Net operating revenue	179.3	169.7	(9.8)	-5.4%
Rate base	4,084.9	4,227.0	142.1	3.5%
Return on rate base	4.39%	4.02%	-0.38%	-8.6%

1

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,697.2	1,697.0	(0.2)	0.0%
Operating expenses:				
Operation & Maintenance	537.4	549.3	11.9	2.2%
Administrative & General	43.9	43.9	0.0	0.0%
G. O. Prorated Expense	245.1	258.7	13.6	5.5%
Dep'n & Amortization	151.0	150.9	(0.1)	-0.1%
Taxes other than income	54.3	54.9	0.6	1.1%
State Corp. Franchise Tax	41.2	37.9	(3.3)	-8.0%
Federal Income Tax	196.7	183.5	(13.1)	-6.6%
Total operating exp.	1,269.6	1,279.0	9.7	0.8%
Net operating revenue	427.6	418.0	(9.9)	-2.3%
Rate base	4,084.9	4,227.0	142.1	3.5%
Return on rate base	10.47%	9.89%	-0.59%	-5.6%

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TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	1,258.9	1,544.2	285.3	22.7%
Operating expenses:				
Operation & Maintenance	536.3	537.0	0.7	0.1%
Administrative & General	43.9	43.9	0.0	0.0%
G. O. Prorated Expense	245.1	245.1	0.0	0.0%
Dep'n & Amortization	151.0	151.0	0.0	0.0%
Taxes other than income	54.3	54.3	0.0	0.0%
State Corp. Franchise Tax	2.6	27.7	25.2	977.1%
Federal Income Tax	46.5	146.1	99.6	214.2%
Total operating exp.	1,079.6	1,205.1	125.5	11.6%
Net operating revenue	179.3	339.0	159.8	89.1%
Rate base	4,084.9	4,084.9	0.0	0.0%
Return on rate base	4.39%	8.30%	3.91%	89.1%

1

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' Dixon District. DRA analyzed CWS' report (Report on the Results of Operations and Prepared Testimony for the Dixon District), supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

Table 2-A Summary of Projected Consumption and Revenues

	DRA		CWS		CWS Exceeds DRA	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Total Operating Revenues ($000)						
Present Rates	1,258.9	1,264.1	1,258.9	1,264.1	0.0	0.0
Utility Proposed Rates	1,697.2	1,945.9	1,697.2	1,945.9	0.0	0.0
Average Number of Customers						
Metered	2,877	2,885	2,877	2,885	0.0	0.0
Fire Protection	35	37	35	37	0.0	0.0
Water Sales By Customer Class (Kccf/yr)						
Residential	600.5	601.8	600.5	601.8	0.0	0.0
Business	52.9	53.6	52.9	53.6	0.0	0.0
Multi-Family	37.4	37.4	37.4	37.4	0.0	0.0
Industrial	0.2	0.2	0.2	0.2	0.0	0.0
Public Authority	36.6	36.6	36.6	36.6	0.0	0.0
Other	3.2	3.2	3.2	3.2	0.0	0.0
Irrigation	0.0	0.0	0.0	0.0	0.0	0.0
Reclaimed	0.0	0.0	0.0	0.0	0.0	0.0
Water Sales Per Average Customer (CCF/Connection/Year)						
Residential	223.9	223.9	223.9	223.9	0.0	0.0
Business	359.9	359.9	359.9	359.9	0.0	0.0
Multi-Family	2,202.9	2,202.9	2,202.9	,2202.9	0.0	0.0
Industrial	42.0	42.0	42.0	42.0	0.0	0.0
Public Authority	1,464.0	1,464.0	1,464.0	1,464.0	0.0	0.0
Other	1,610.5	1,610.5	1,610.5	1,610.5	0.0	0.0

B. SUMMARY OF RECOMMENDATIONS

1) Number of Customers

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS has used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors. DRA accepts CWS' estimates for the number of customers in each of the six classes of customers for the Test Year.

2) Operating Revenues

DRA accepts CWS' revenue forecasting methodology. A detailed comparison for the Test Year is shown in Tables 2-6, and 2-7.

3) Consumption

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. Removing the first four inches of rainfall is consistent with CPUC practice. This adjustment is made to reflect the fact that, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views (E-Views) to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

While preparing its estimates, DRA reviewed and confirmed CWS' models and forecasts. DRA accepts CWS' general forecasting methodology. DRA's and CWS' estimates are generally derived from the average-use-per connection forecasted for 2006 and then incorporated customer growth in 2007 and 2008. These forecasts are then averaged to derive the fiscal Test Year estimates for 2007-08, and the escalation fiscal year 2008-09. Detailed discussions of the forecasts are below.

4) Unaccounted For Water ("UFW")

CWS used a three-year average unaccounted for water percentage of 11.84%. DRA calculated a five-year average of 9.35%. DRA recommends the Commission adopt the DRA percentage because it is more reasonable.

C. DISCUSSION

1) Number of Customers

DRA's and CWS' customer forecasts are shown in Table 2-A above and at the end of the Chapter in Tables 2-2 and 2-3.

2) Operating Revenues

Revenues requested by CWS and recommended by DRA based on the present and proposed rates are shown above in Table 2-A and at the end of the Chapter in Tables 2-6 and 2-7.

3) Consumption

DRA reviewed CWS' forecasts and developed its forecasts utilizing the same set of historical data. DRA used an E-Views forecast where the statistics indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near 2.00, and significant t-statistics) from using an E-Views forecast. In other instances, DRA used an average of historical consumption similar to how CWS

developed its forecast. DRA's and CWS' forecasts are shown in Table 2-A above and at the end of the Chapter in Table 2-1.

The basic forecast equation starts with a constant term, a temperature variable, a rain variable, and a time variable. Depending on the statistics generated by this simple model adjustments may be made to the model to provide a superior estimate. Some of the modifications may include substituting the individual monthly temperature variables, including an autoregressive term, or including a dummy variable. Specific forecasts are discussed below.

(a) Residential

DRA used the same forecast method as CWS. The E-Views equation included a constant term, twelve temperature variables (representing each month), a time variable, but no autoregressive term. After reviewing the results of the water sales E-Views model, both DRA and CWS observed that the results were too low and did not fairly represent future water sales potential for the residential class. A five-year average calculation of historic consumption for metered sales per residential customer provides a better representation. DRA agrees with CWS' method of forecasting residential sales.

DRA calculated annual residential water consumption by multiplying the projected consumption per customer in hundreds of cubic feet ("CCF") by the projected number of customers. DRA multiplied CWS' forecast result of 223.9 Ccf per customer by the average number of customers per year to estimate the total metered sales for 2006, 2007, and 2008. To estimate the 2007-08 fiscal Test Year sales, an average of the 2007 and 2008 estimates were used. DRA agrees with the resulting total water sales of 600.5 thousand cubic feet (Kccf) per year for residential customer class as shown above in Table 2-A.

(b) Business

DRA used the same forecast equation as CWS. The E-Views equation included a constant term, twelve temperature variables (representing each month), a time variable, a dummy variable adjustment, and an autoregressive term. The E-Views model returned statistics indicating good results (R-squared close to 1.00, a Durbin-Watson statistic value close to 2.00, and a high variable coefficient t-statistic). CWS used the resulting forecast of 359.9 Ccfs per connection per year, which is multiplied by the average number of customers to derive the Total Metered Sales of 52.9 Kccf per year for 2007-08 Fiscal Test Year. DRA agrees with these results and finds no need to change the forecasts.

(c) Multifamily

DRA used the same forecast equation as CWS. The E-Views equation included a constant term, eight temperature variables (representing the months April through December due to removal of error terms in temperature variables for January, February and March), a time variable, and an autoregressive term. DRA concurs with CWS' forecast of 2202.9 Ccfs per connection per year and the calculated Total Metered Sales of 37.4 Kccf per year for the Fiscal Test Year of 2007-08.

(d) Industrial

DRA used the same forecast method as CWS. The E-Views standard model for estimating the industrial sales generated unsatisfactory statistics. Therefore, sales for the last recorded year, 2005, were used to forecast sales. Because of the variable recorded amounts for industrial sales for the past years, a five-year average would not provide a realistic sales amount in this customer class. CWS used 42.0 Ccf per connection per year resulting in 0.2 Kccf per year Total

Industrial Sales for 2007-08 Fiscal Test Year. DRA concurs and does not recommend a change to the method of forecasting industrial sales.

(e) Public Authority

DRA used the same forecast method as CWS. DRA did not use the E-Views model to forecast sales for the public authority customer class. There was a distinct increase in the level of recorded sales beginning in 2003, due not only to the change in the number of customers, but also due to the change in the level of use per customer. Because of this change in the use pattern a three-year average from 2003 to 2005 was used to forecast sales of 1,464.0 Ccf per connection per year. Sales per connection in Ccf is multiplied by the average number of customers, then divided by 1000 to derive 36.6 Kccf per year for Total Sales for 2007-08 Fiscal Test Year. DRA finds this reasonable and concurs with CWS' forecast.

(f) Other

Here, a suitable forecast E-Views model was not available. Historical data begins in 2003 so a three-year average is used to forecast 1610.5 Ccf per service connection. DRA multiplied the sales per connection by the average number of customers, divided by 1000 to forecast 3.2 Kccf per year for the Other customers for Fiscal Test Year 2007-08. DRA concurs with this forecast and recommends the Commission adopt this forecast.

4) Unaccounted For Water ("UFW")

There are no flat rate customers in Dixon District, so the actual amount of UFW can be measured and projected. UFW includes leakage of water from the system prior to sale and water used for system flushing and maintenance. CWS estimated unaccounted for water at 11.84% based on a three-year average usage from 2003 to 2005. CWS did not specify the reason for the choosing these three

years. Those three years, however, have the highest three percentages of UFW out of the past six years. DRA recommends a five-year average calculation of 9.35% UFW. This percentage is closer to the standard 8% UFW for most of CWS' other districts. DRA recommends that CWS work towards lowering the UFW percentage by proposing specific projects in their next GRC to address the issue of unaccounted for water.

Table 2-B - Recorded Unaccounted For Water Percentages

2001	2002	2003	2004	2005
5.62%	5.59%	9.90%	12.28%	13.35%

5) Total Water Consumption and Supply

Total water consumption is the sum of metered, un-metered sales and unaccounted for water. The Dixon District does not have any residential flat rate customers, but does have a small amount of private and public fire protection un-metered customers. The total water supply is supplied by company owned wells. Tables 2-4 and 2-5 show the total consumption and water supply levels for the Test Year and escalation year.

D. CONCLUSION

1) Number of Customers

DRA concurs with CWS' estimated number of customers for the Test Years.

2) Operating Revenues

DRA finds CWS' revenue forecast reasonable and recommends the Commission adopt the revenue forecasts shown in Table 2-A, and at the end of this Chapter in Tables 2-6 and 2-7.

3) Consumption

DRA finds CWS' forecasts of consumption reasonable and recommends the Commission adopt the numbers shown in Table 2-A, and Table 2-1.

4) Unaccounted For Water

DRA's five-year average percentage recommendation of 9.35% is more reasonable and should be adopted.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	223.9	223.9	0.0	0.0%
Business	359.9	359.9	0.0	0.0%
Multiple Family	2,202.9	2,202.9	0.0	0.0%
Industrial	42.0	42.0	0.0	0.0%
Public Authority	1,464.0	1,464.0	0.0	0.0%
Other	1,610.5	1,610.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,682	2,682	0	0.0%
Business	147	147	0	0.0%
Multiple Family	17	17	0	0.0%
Industrial	4	4	0	0.0%
Public Authority	25	25	0	0.0%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	2,877	2,877	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	31	31	0	0.0%
Public Fire Protection	4	4	0	0.0%
Total flat rate connections	35	35	0	0.0%
Total Active Connections				
Include Fire Protection	2,912	2,912	0	0.0%
Exclude Fire Protection	2,877	2,877	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,688	2,688	0	0.0%
Business	149	149	0	0.0%
Multiple Family	17	17	0	0.0%
Industrial	4	4	0	0.0%
Public Authority	25	25	0	0.0%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	2,885	2,885	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	33	33	0	0.0%
Public Fire Protection	4	4	0	0.0%
Total flat rate connections	37	37	0	0.0%
Total Active Connections				
Include Fire Protection	2,922	2,922	0	0.0%
Exclude Fire Protection	2,885	2,885	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	600.5	600.5	0.0	0.0%
Business	52.9	52.9	0.0	0.0%
Multiple Family	37.4	37.4	0.0	0.0%
Industrial	0.2	0.2	0.0	0.0%
Public Authority	36.6	36.6	0.0	0.0%
Other	3.2	3.2	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	730.8	730.8	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 11.84% CWS 9.35% DRA	75.4	98.2	22.8	30.3%
Total delivered	806.2	829.0	22.8	2.8%
Supply				
Company Wells	806.2	829.0	22.8	2.8%
Total production	806.2	829.0	22.8	2.8%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	601.8	601.8	0.0	0.0%
Business	53.6	53.6	0.0	0.0%
Multiple Family	37.4	37.4	0.0	0.0%
Industrial	0.2	0.2	0.0	0.0%
Public Authority	36.6	36.6	0.0	0.0%
Other	3.2	3.2	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	732.9	732.9	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water				
11.84% CWS 9.35% DRA	75.6	98.4	22.8	30.2%
Total delivered	808.5	831.4	22.9	2.8%
Supply				
Company Wells	808.5	831.4	22.9	2.8%
Total production	808.5	831.4	22.9	2.8%

1

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	1,040.5	1,040.5	0.0	0.0%
Business	94.5	94.5	0.0	0.0%
Multiple Family	50.9	50.9	0.0	0.0%
Industrial	1.0	1.0	0.0	0.0%
Public Authority	51.5	51.5	0.0	0.0%
Other	3.2	3.2	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	1,241.6	1,241.6	0.0	0.0%
Flat Rate Revenues				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	8.7	8.7	0.0	0.0%
Public Fire Protection	1.5	1.5	0.0	0.0%
Other	1.7	1.7	0.0	0.0%
Total Flat Rate	11.9	11.9	0.0	0.0%
Deferred Revenues	5.3	5.3	0.0	0.0%
Total revenues	1,258.9	1,258.9	0.0	0.0%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	1,390.1	1,390.1	0.0	0.0%
Business	132.0	132.0	0.0	0.0%
Multiple Family	75.0	75.0	0.0	0.0%
Industrial	1.3	1.3	0.0	0.0%
Public Authority	76.0	76.0	0.0	0.0%
Other	4.5	4.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	1,678.9	1,678.9	0.0	0.0%
Flat Rate Revenues				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	9.5	9.5	0.0	0.0%
Public Fire Protection	1.6	1.6	0.0	0.0%
Other	1.8	1.8	0.0	0.0%
Total Flat Rate	12.9	12.9	0.0	0.0%
Deferred Revenues	5.3	5.3	0.0	0.0%
Total revenues	1,697.2	1,697.2	0.0	0.0%

CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on Operation and Maintenance (O&M) expenses in the Dixon District(s) of California Water Service Company (CWS). Table 3-1 compared in detail DRA's and CWS O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All DRA's estimates are in Nominal Dollars. A comparison of total expense estimates at present rates for these years is shown in Table 3-A:

Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's and CWS O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009.

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	Utility Exceeds DRA Fiscal 2007-2008
$536,300	$548,200	$545,700	$556,700	$11,900 2.2%	$11,000 2.0%

DRA's analyses of CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 include the following analyses as listed below—[(1) through (6)]--of CWS recorded historical expense trends (2000-2005) and CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using estimates from Test Years 2006, 2007 and 2008.

(1) A 5-Year Regression Analysis (2001-2005)

(2) A 3-Year Regression Analysis (2003-2005)

(3) 5-Year Averages (2001-2005)

(4) 3-Year Averages (2003-2005)

(5) Last Year Recorded Amounts as base Year 2005

(6) Annualization of the Last 8-months of recorded data (January 2006-August 2006).

DRA selected the methodology that best fits CWS recorded historical expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

The inflation factors used by DRA are recommended by the Commission's Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commission. These factors were provided in a Memorandum from ECOS dated August 31, 2006. The Labor escalation factors are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price Indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index; derive from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from the monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018.

B. SUMMARY OF RECOMMENDATIONS

DRA conducted independent analyses of CWS work papers and methods of estimating the Operating and Maintenance expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. CWS used a 5-year average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 expenses.

DRA used alternative projection methods which were then compared with CWS projections and its historical operations. DRA projections are identified in Table 3-1 at the end of this Chapter. DRA estimated $536,300 and $545,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 expenses respectively. The methodologies used by DRA are discussed in the following sections. DRA recommends that the Commission adopts its O&M numbers as reasonable.

Table 3-B: : Escalation Factors

	Compensation per hour Non-farm rate		Inflation Rates (%)				Composite Rates % 40/60 Split	
Year	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non-Labor	Labor	Non-Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

C. DISCUSSION

1) PURCHASED WATER

CWS: Dixon does not record purchased water expense.

2) PRODUCED WATER: GROUND WATER EXTRACTION CHARGES

CWS: Dixon Groundwater Extraction Charges are zero ($0.0).

3) REPLISHMENT ASSESSMENT

CWS: Dixon Groundwater Replenishment Assessment is zero ($0.0).

4) PURCHASED POWER

Purchased power is the cost of electricity needed to operate a district, including the power used in pumping and delivering water. The estimate of purchased power varies from year to year, and month to month based on differences in local demand, maintenance schedules, and other operational considerations such as the quality of water delivered. This calculation also takes into account the historical ratio of electricity used to the amount of water pumped.

CWS estimates of purchase power costs per production unit were based on usage patterns of each production component, using a model of power cost per kilowatt-hour at various levels of production. CWS model estimates costs per kilowatt-hour at current rates (Pacific Gas and Electric Company schedules effective May1, 2006) using the historical average of kilowatt-hours per unit of production and the last three years of recorded data (2003-2005). Because fixed components of the bill are spread over more units of production, the costs per kilowatt-hour generally decline with increasing uses. When the data (kilowatt-hour) used show a specific pattern, CWS uses a forecast methodology to predict estimated power cost from the estimated kilowatt-hour demand. If no specific patterns are observed, CWS uses an average such as a 5-year average.

For Dixon, the last 3-years of data show a poor relationship between power consumption and average power cost; therefore, CWS used the average unit power cost to forecast well power costs. The model average output is $0.1494 per kilowatt-hour.

CWS estimated $131,300 and $131,600 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS estimates of $131,300 for Fiscal Year 2007-2008 and $131,600 for the Fiscal Year 2008-2009.

5) PURCHASED CHEMICAL

CWS Purchased Chemical expenses are a function annual water productions and the cost of chemical. CWS estimates are based on the cost per unit of production multiplied by the test year production forecasts. CWS estimated expenses are $8,900 for Fiscal Year 2007-2008 and $9,000 for Fiscal Year 2008-2009 respectively.

DRA accepts CWS estimates of $8,900 for Fiscal Year 2007-2008 and $9,100 for the Fiscal Year 2008-2009.

6) LABOR

Labor costs included payroll expenses, wages and salaries and overtime for district personnel. However, labor costs does not include benefits, the benefits costs are included in the General Office labor accounts. CWS capitalizes labor expenses for its districts. An historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of 8.15%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. Labor is broken down into O&M and A&G categories based on the 2005 recorded costs for each category. CWS O & M payroll category included Operation Payroll and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage allocation of the total (100%) Operating Payroll. DRA's estimates of A&G labor for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are described in Chapter 4.

CWS did not ask for additional staff for its Dixon district in 2006, 2007 & 2008 as shown in Table 3-C.

Table 3-C: CWS Request for Additional Workers

District	Willows	Willows	Willows
Year	2006	2007	2008
Personnel	None	None	None

7) OPERATION PAYROLL

Operation payroll: CWS used the last recorded year (2005) as its base year for estimating the labor costs. The payroll expenses are based on the existing district's payroll levels adjusted for new employees and escalated by CWS labor inflation factors which are 3.5% for 2006—based on union contracts—and 3.5% for 2007. There is no union contract for 2008. DRA did not challenge CWS Operation Payroll estimates for the Test Years 2006, 2007 and 2008. CWS estimates are $199,400 and $203,600 respectively for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009.

DRA accepts CWS' estimates of $199,400 and $203,500 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

8) POSTAGE

Postage costs are a function of postage rates, the number of customers and the number of annual mailings to each customer. CWS used the last recorded year (2005) adjusted for inflation. CWS estimated $11,400 and $11,600 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimates of $11,400 and $11,600 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

9) TRANSPORTATION

CWS estimated Transportation expenses at $28,600 and $29,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimates of $28,700 and $29,200 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

10) UNCOLLECTIBLES

CWS estimated Uncollectible expense rates at 0.26% for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' methodology and CWS' estimates of 0.26% for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 respectively.

11) SOURCE OF SUPPLY

CWS estimated Source of Supply expenses at $0.0 for both Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimates of $0.0 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

12) PUMPING EXPENSES

This expense category tracks costs of equipment, materials and other Misc. pumping costs and outside services related to pumping. CWS used a 5-year adjusted average to estimate the Misc. pumping costs at $24,300 and $24,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimates of $24,300 for Fiscal Year 2007-2008 and $24,700 for Fiscal Year 2008-2009 respectively.

13) WATER TREATMENT

Water treatment costs tracks material, equipment maintenance, and outside services relating to the operation of treatment plants. Chemical costs are accounted for separately. CWS estimated Water Treatment expenses at $16,800 and $17,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively DRA accepts CWS' estimates of $16,800 for Fiscal Year 2007-2008 and $17,100 for Fiscal Year 2008-2009 respectively.

14) TRANSMISSION AND DISTRIBUTION

CWS estimated Transmission and Distribution Misc. expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be $8,700 and $8,900 respectively.

DRA accepts CWS' estimates of $8,700 for Fiscal Year 2007-2008 and $8,900 for Fiscal Year 2008-2009 respectively

15) CUSTOMER ACCOUNTING

CWS estimated Customer Accounting expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be $34,400 and $35,000 respectively.

DRA accepts CWS' estimates of $34,400 and $35,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

16) CONSERVATION

Under the Memorandum of Understanding on Urban Water Conservation, CWS must implement cost-effective programs when they are funded by the Commission. Programs break down for conservation and estimates are based on the Urban Water Management Plan. In 1991, the California Urban Water Conservation Council (CUWCC) crafted a Memorandum of Understanding (MOU) regarding Urban Water Conservation in California. Signatories of the

MOU identified 14 Best Management Practices (BMPs) for water conservation—a very ambitious program. However, fifteen years to date, the implementation of these programs is far from being successful. One of the reasons for this lag in implementation could be that there is no incentive for water utilities to conserve water; as demonstrated by CWS' historically low spending on water conservation measures--$1,900 (5-year average, 2001-2005) and $1,100 (3-year average). CWS' request that the Commission grant them 1.5% of revenue for an effective conservation program when the program benefits have not been adequately identified or included in the costs sponsored by CWS in this GRC seems unreasonable. Therefore, DRA used a 3-year regression for its estimates.

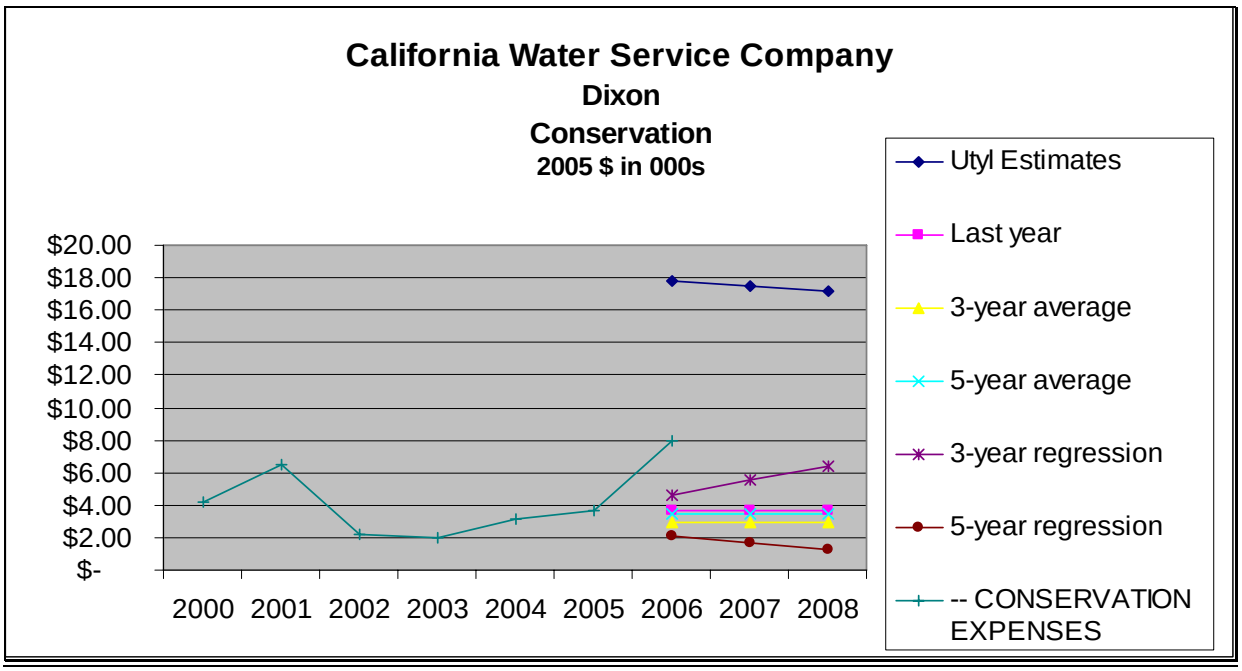
17) CWS CONSERVATION PROGRAM

CWS estimated $17,400 for 2006, $17,500 for 2007 and $17,100 for 2008. CWS estimates for the Fiscal Years 2007-2008 and 2008-2009 are $18,400 and $18,800 respectively. DRA estimated $4,700 for 2006, $5,500 for 2007 and $6,400 for 2008; for the Fiscal Years 2007-2008 and 2008-2009 DRA's estimates are $6,500 and $7,800 respectively as shown in Table 3-D. DRA based its estimates on a 3-year regression analysis (2003-2005).

DRA ask that its estimates of $6,500 and $7,800 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-D Conservation Expenses

California Water Service Company									
Dixon									
Conservation									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 17.78	$ 17.47	$ 17.15
Last year							$ 3.70	$ 3.70	$ 3.70
3-year average							$ 2.95	$ 2.95	$ 2.95
5-year average							$ 3.50	$ 3.50	$ 3.50
3-year regression							$ 4.66	$ 5.51	$ 6.36
5-year regression							$ 2.13	$ 1.68	$ 1.22
-- CONSERVATION EXPENSES	$ 4.21	$ 6.47	$ 2.17	$ 2.00	$ 3.16	$ 3.70	$ 7.97		



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2 **18) MAINTENANCE: PAYROLL**

3 DRA did not challenge CWS' Maintenance Payroll estimates for the Fiscal
4 Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated $19,200 and $19,500
5 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

6 DRA accepts CWS' estimates of $19,200 and $19,500 for the Fiscal Year
7 2007-2008 and Fiscal Year 2008-2009 respectively.

8 **19) MAINTENANCE: TRANSPORTATION**

9 DRA did not challenge CWS' Maintenance Transportation estimates for the
10 Fiscal Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated $14,400 for
11 the Fiscal Year 2007-2008 and $14,700 for Fiscal Year 2008-2009 respectively.

12 DRA accepts CWS' estimates of $14,400 and $14,700 for the Fiscal Year
13 2007-2008 and Fiscal Year 2008-2009 respectively.

20) MAINTENANCE: STORES

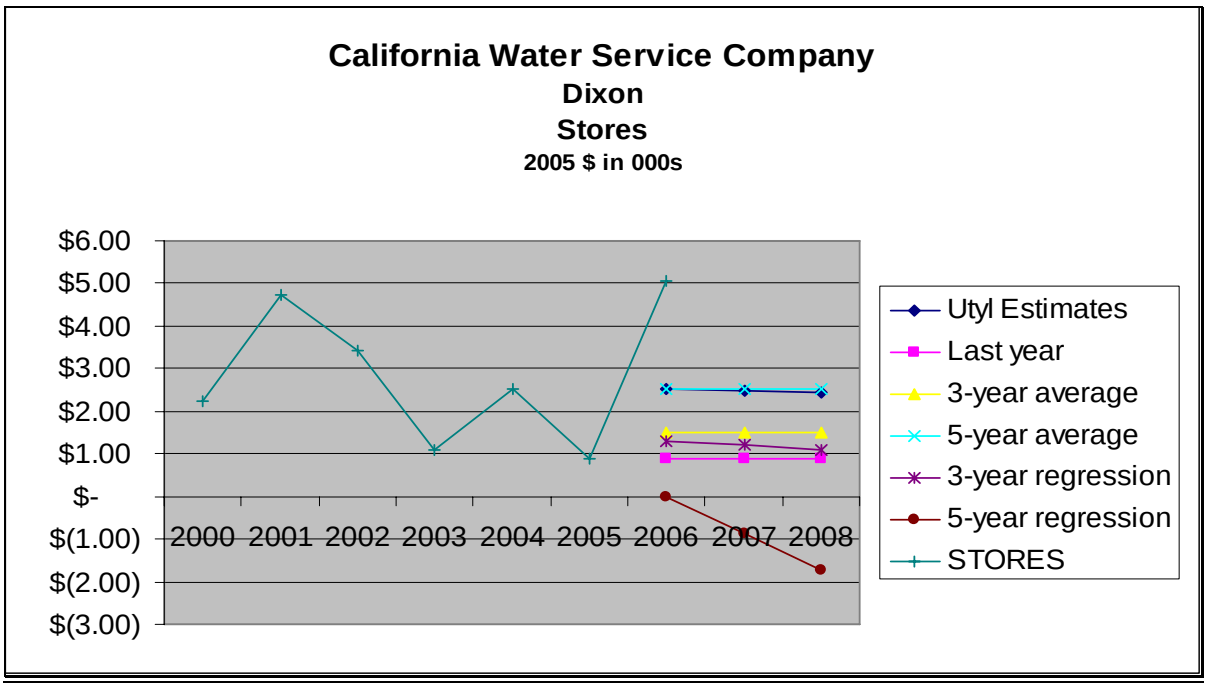
CWS estimated Stores expenses at $2,800 and $2,800 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA estimated $1,000 and $1,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009, using last year (2005) recorded amount of $900 adjusted for inflation as shown in Table 3-E.

DRA requests that its estimates of $1,000 and $1,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-E: Maintenance Stores

California Water Service Company									
Dixon									
Maintenance Stores									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 2.51	$ 2.47	$ 2.42
Last year							$ 0.90	$ 0.90	$ 0.90
3-year average							$ 1.51	$ 1.51	$ 1.51
5-year average							$ 2.54	$ 2.54	$ 2.54
3-year regression							$ 1.30	$ 1.20	$ 1.09
5-year regression							$ (0.03)	$ (0.89)	$ (1.75)
STORES	$ 2.22	$ 4.74	$ 3.43	$ 1.11	$ 2.53	$ 0.90	$ 5.07		



21) MAINTENANCE: CONTRACTED MAINTENANCE

Contracted Maintenance only includes services and supplies provided by outside contractors for the maintenance of the district facilities. This category includes, without limitation, services related to:

a. Raising Valve Casings
b. Repairing Fire Hydrants
c. Repairing Reservoirs
d. Painting Water Tanks
e. Sealing Field Yard Pavement
f. Painting and Repairing Building Interiors

CWS estimated Contracted Maintenance expenses at $26,200 and $26,700—using 5-year inflation adjusted average for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA accepts CWS' estimates of $26,200 and $26,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

D. CONCLUSION

Table 3-A reflects the reasonableness of DRA's methodology and analysis of CWS' O&M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	1,258.9	1,258.9		
Uncollectible rate	0.26162%	0.26162%		
Uncollectibles	3.3	3.3	0.0	0.0%
Operation Expenses				
Purchased Water	0.0	0.0	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	131.3	131.3	0.0	0.0%
Purchased Chemicals	8.9	8.9	0.0	0.0%
Payroll	199.4	199.4	0.0	0.0%
Postage	11.4	11.4	0.0	0.0%
Transportation	28.7	28.7	0.0	0.0%
Uncollectibles	3.3	3.3	0.0	0.0%
Source of Supply	0.0	0.0	0.0	0.0%
Pumping	24.3	24.3	0.0	0.0%
Water Treatment	16.8	16.8	0.0	0.0%
Transmission & Distribution	8.7	8.7	0.0	0.0%
Customer Accounting	34.4	34.4	0.0	0.0%
Conservation	6.5	18.4	11.9	183.1%
Total Operation Expenses	473.7	485.6	11.9	2.5%
Maintenance Expenses				
Payroll	19.2	19.2	0.0	0.1%
Transportation	14.4	14.4	0.0	0.0%
Stores	2.8	2.8	0.0	0.0%
Contracted Maintenance	26.2	26.2	0.0	0.0%
Total Maintenence Expense	62.6	62.6	0.0	0.0%
Total O & M Expenses (incl uncoll)	536.3	548.2	11.9	2.2%
At proposed rates				
Operating Revenues	1,697.2	1,697.2		
Uncollectible rate	0.26162%	0.26162%		
Uncollectibles	4.4	4.4		
Total O & M Expenses (incl uncoll)	537.4	549.3	11.9	2.2%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations for California Water Service Company's A&G expenses including Payroll, Transportation Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization of Limited Term Investments, and Dues and Donations Adjustments. All of DRA's estimates are in Nominal Dollars. A comparison of total expense estimates for Fiscal Years 2007 – 2008, is presented in Table 4 – 1.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $43,900 for Fiscal Year 2007-2008. CWS estimate for the same time period is $43,900. DRA's estimated total for A&G expenses is $45,200 for Fiscal year 2008 – 2009. CWS' estimate for the same time period is $45,200.

C. DISCUSSION

DRA conducted independent analysis of CWS' work papers and methods of estimating the Administration & General expenses. Other DRA witnesses recommended disallowing the intangible plant portion of this district expenses for the years 2006 through 2009. DRA accepted the CWS allocation factors for A&G payroll.

Concerning the Extended Service Program (ESP) program included as administrative charges transferred, DRA adjusted it based upon the fact that CWS used 2005 numbers for Residential Metered and Flat Rate hookups. DRA decided to use Metered residential hookups for 2006 which reflects more recent data. The difference is small, so DRA accepts CWS' numbers.

The inflation factors used by DRA are recommended by the Commission's Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commission. These factors were provided in a memorandum from ECOS dated August 31, 2006. The Labor escalation factors are the Consumer Price index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index derived from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS

	Compensation per hour Non-Farm Rate:		**Inflation Rates (%)**				**Composite Rates % 40/60 Split**	
Year	Calender Annual % Changes:	Fiscal Annual % Changes:	Calender Non-Labor	Labor	Fiscal Non Labor	Labor	Calendar	Fiscal
1997	3.6	4.5	0.6	--	0.3	--	1.8	2
1998	5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001	2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002	2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003	4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0	1.7	--	--	1.6	--

D. CONCLUSION

DRA recommends adopting DRA's numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	1,255.6	1,255.6		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	27.9	27.9	0.0	0.0%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	10.6	10.6	0.0	0.0%
Admin Charges Trsf	(17.4)	(17.4)	0.0	0.0%
Nonspecifics	23.2	23.2	0.0	0.0%
Amort of Limited Term Inv.	0.5	0.5	0.0	0.0%
Dues & Donations Adjustment	(0.9)	(0.9)	0.0	0.0%
Total A & G Expenses	43.9	43.9	0.0	0.0%
(incl. local Fran.)	43.9	43.9	0.0	0.0%
At proposed rates				
Oper. Rev. less uncoll.	1,692.8	1,692.8		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	43.9	43.9	0.0	0.0%
(incl. local Fran.)	43.9	43.9	0.0	0.0%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of Taxes Other Than Income for CWS for Fiscal Years 2007 – 2008, and 2008 – 2009. Taxes Other Than Income include ad valorem tax (property tax), business licenses, franchise, and payroll taxes. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution ACT (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), and State Unemployment Insurance (SUI).

DRA's and CWS' estimates of Taxes Other Than Income for Fiscal Years 2007-2008 and 2008-2009 are included in Table 5-1 at the end of the chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methodology that CWS proposes using to determine the estimated expenses for fiscal year 2007-2008, and 2008-2009 for ad valorem taxes. Differences in the taxes and fees are due to differences between DRA's and CWS' estimates of plant additions. A comparison of DRA's and the company's estimates is shown in Table 5-1.

C. CONCLUSION

1) Ad Valorem Taxes - Differences between DRA and CWS are attributable to the differences in Plant estimates.

2) Payroll Taxes – There are no differences in payroll taxes.

DRA recommends adopting its numbers for this district. See Table 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	33.4	34.0	0.6	1.8%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	20.8	20.8	0.0	0.0%
Business License (pres rates)	0.1	0.1	0.0	0.0%
Business License (prop rates)	0.1	0.1	0.0	0.0%
Taxes other than income (present rates)	54.3	54.9	0.6	1.1%
Taxes other than income (proposed rates)	54.3	54.9	0.6	1.1%
State Tax Depreciation	261.4	261.4	0.0	0.0%
Transp. Dep. Adj.	(2.2)	(2.2)	0.0	0.0%
State Tax Deduct(pres rates)	259.2	259.2	0.0	0.0%
State Tax Deduct(prop rates)	259.2	259.2	0.0	0.0%
Federal Tax Depreciation	147.5	147.5	0.0	0.0%
State Income Tax	8.4	8.4	0.0	0.0%
Transp. Dep. Adj.	(2.2)	(2.2)	0.0	0.0%
Pre. Stock Div. Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.6	1.6	0.0	0.0%
Fed. Tax Deduct.(pres rates)	153.9	153.9	0.0	0.0%
Fed. Tax Deduct.(prop rates)	162.0	162.0	0.0	0.0%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis of Income Taxes for the Dixon District of California Water Service Company. Tables 6-1 and 6-2 compare in detail DRA's and CWS' tax deductions and taxes estimates for the Fiscal Year 2007 – 2008 and the escalation Year 2008 – 2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods CWS used to calculate Income Tax.

DRA's lower O&M expenses, General Office prorated expenses, and capitalized interest calculations account for the difference in the final tax estimates.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into the general rate case in accordance with the requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987 and December 88-01-061 dated January 28, 1988.

Some of the provisions of TRA 86 have been incorporated into California Corporation Franchise Tax (CCFT) law in the California Bank and Corporation Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987). The provisions have been estimated and integrated into the CCFT calculations for this general rate case.

DRA calculated tax depreciation for state and federal income tax purposes by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant to CWS' tax depreciation estimate. This methodology will be trued up when a Commission decision is issued in this case.

To calculate the interest deduction, DRA used its ratebase and multiplied it by the weighted cost of debt, whereas CWS reduced the ratebase by working cash before multiplying by the weighted cost of debt. DRA followed the policy outlined in D.03-12-040; because Working Cash is a part of ratebase and therefore should be considered when calculating the deduction for interest on debt during the calculation of income taxes.

Decision 89-11-058 issued on November 22, 1989 requires that for ratemaking purposes the prior year's CFFT should be used in the calculation of Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax (FIT). The tax requirements of that decision have been incorporated in this general rate case by both DRA and CWS. The prior year's CCFT was used as a deduction in arriving at the Fiscal Year 2007-2008 and the escalation Year 2008-2009 estimated FIT.

Corporations may deduct dividends paid on special preferred stock issues or issues made to redeem such preferred stock. The Preferred Stock Dividend Credit tax deduction is reflected in DRA's calculations.

CWS has applied the tax incentive on production from the American Job Creation Act of 2003. DRA agrees.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,258.9	1,258.9	0.0	0.0%
Deductions:				
O & M expenses	536.3	547.8	11.5	2.1%
A & G expenses	43.9	43.9	0.0	0.0%
G. O. Prorated expenses	229.8	242.2	12.4	5.4%
Taxes not on Income	54.3	54.9	0.6	1.1%
Transportation Deprec Adj	(2.2)	(2.2)	0.0	0.0%
Interest	106.3	118.5	12.2	11.5%
Income before taxes	290.5	253.8	(37.1)	-12.8%
Calif. Corp. Franchise Tax				
State Tax Deductions	(261.4)	(261.4)	0.0	0.0%
Taxable income for CCFT	29.1	(7.6)	(37.1)	-127.5%
CCFT Rate	8.84%	8.84%		
CCFT	2.6	(0.7)	(3.3)	-127.5%
Addl. Tax .06% per D.84-05-036	0.0	0.0	0.0	0.0%
Adjusted CCFT	2.6	(0.7)	(3.3)	-127.5%
Federal Income Tax				
Tax Depreciation	147.5	147.5	0.0	0.0%
State Corp Franch Tax	8.4	8.4	0.0	0.0%
Pref Stock Dividend Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.6	1.6	0.0	0.0%
Taxable income for FIT	132.8	96.1	(37.1)	-27.9%
FIT Rate	35.00%	35.00%		
FIT	46.5	33.6	(13.0)	-27.9%
Total FIT & CCFT	49.1	32.9	(16.4)	-33.4%

1

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,697.2	1,697.0	(0.2)	0.0%
Deductions:				
O & M expenses	537.4	549.3	11.9	2.2%
A & G expenses	43.9	43.9	0.0	0.0%
G. O. Prorated expenses	229.8	242.2	12.4	5.4%
Taxes not on Income	54.3	54.9	0.6	1.1%
Transportation Deprec Adj	(2.2)	(2.2)	0.0	0.0%
Interest	106.3	118.5	12.2	11.5%
Income before taxes	727.7	690.0	(37.3)	-5.1%
Calif. Corp. Franchise Tax				
State Tax Deductions	(261.4)	(261.4)	0.0	0.0%
Taxable income for CCFT	466.3	428.6	(37.3)	-8.0%
CCFT Rate	8.84%	8.84%		
CCFT	41.2	37.9	(3.3)	-8.0%
Addl. Tax .06% per D.84-05-036	0.0	0.0	0.0	0.0%
Adjusted CCFT	41.2	37.9	(3.3)	-8.0%
Federal Income Tax				
Tax Depreciation	147.5	147.5	0.0	0.0%
State Corp Franch Tax	16.5	16.5	0.0	0.0%
Pref Stock Dividend Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.6	1.6	0.0	0.0%
Taxable income for FIT	561.9	524.2	(37.3)	-6.6%
FIT Rate	35.00%	35.00%		
FIT	196.7	183.5	(13.1)	-6.6%
Total FIT & CCFT	237.9	221.3	(16.4)	-6.9%

1

CHAPTER 7: PLANT IN SERVICE

A. INTRODUCTION

This Chapter provides DRA's assessment of utility plant in service. DRA and CWS estimate for capital investment expenditures for Test Year 2007-2008 and escalation year 2008-2009 are located in Tables 7-1 and 7-2 at the end of this Chapter.

DRA reviewed and analyzed CWS testimony, application, work-papers, master data request responses, capital project justifications, cost estimates, and responses to DRA data requests. During August 2006, DRA conducted a field investigation of many of the proposed specific plant additions before making its independent recommendations.

B. SUMMARY OF RECOMMENDATIONS

1) DRA recommends Gross Additions of $629,900 for the Dixon District for Test Year 2007-2008 and $1,378,000 for Test Year 2008-2009. Table 7-A compares DRA's recommended capital budget with the Final CWS capital budget request.

Table 7-A

California Water Service Company

Dixon District
Budget for Capital Investment Projects
($Dollars in Thousands)

			DRA		*CWS*		*$ Diff.*	*% Diff*
2007-2008	Non-Specific	$	48	$	59	$	(11)	-19%
2007-2008	Specific	$	575	$	675	$	(100)	-15%
Total		$	623	$	734	$	(111)	-15%
2008-2009	Non-Specific	$	49	$	64	$	(15)	-24%
2008-2009	Specific	$	1,322	$	1,648	$	(326)	-20%
Total		$	1,371	$	1,712	$	(341)	-20%

The main differences between the two estimates were due to inconsistent use of overhead and contingency values by CWS, different DRA interpretations of recent cost estimates of similar projects and DRA using median price per square foot based on properties sold during October 2006 for real estate prices in Dixon.

C. DISCUSSION

1) DRA reviewed submittals provided by CWS including the Application, Master Data Request Responses, work papers, and responses to DRA Data Requests. DRA conducted field trips to the district and visited job sites of projects previously completed or planned for future construction.

2) The average utility plant additions for Dixon District have been about $110,100 for the past five years covering 2001 through 2005. The budget request for the period of 2006-2008 is significantly greater than recent history primarily due to a major street reconstruction project and a new well.

3) DRA concurred with the 2007-2008 projects submitted by CWS with the exception that DRA recommended adjustments to four specific projects

and the non-specifics budget. These adjustments are listed in Table 7-B and described in paragraphs 4) through 8).

Table 7-B
California Water Service Company
Dixon District
DRA Exceptions to 2007 Capital Expenditures Budget
Dollars in Thousands

Project	*Description*	*DRA*	*CWS*	*$ Diff*
15478	New Well Site	$315	$327	$ 12
15148	Panelboard	49	76	27
15284	2-in Main Repl	38	41	2
13434	Vehicle	0	32	32
	Subtotal Specifics	$402	$475	$ 73
	Subtotal Non specifics	$ 48	$ 59	$ 11

4) Project 15478 – Land for New Well Site

CWS proposed to drill a new well for Dixon District because Well 2-01 has experienced high levels of nitrate. Over the past several years, CWS had placed Well 2-01 on standby and had run the well to waste to collect samples. CWS has applied to the Department of Health Services (DHS) to amend the CWS Water Supply Permit to change the status of Well 2-01 to active source. To satisfy permit requirements, CWS proposed to install a continuous nitrate analyzer and SCADA system with associated alarms and shutdown set point for the reliability. To meet other permit requirements, CWS needs to conduct a cycle test in order to determine any trends of nitrate levels over time when the well is running continuously. Since the well has been out of service for a long time, CWS must complete a monitoring round for all Title 22 chemicals as required for all new sources. To determine whether or not to allow Well 2-01 back into operation, DHS will be considering the results of these actions. There is no guarantee that even if the well becomes active, it would not have any future nitrate problems causing it to be taken out of service again.

DRA consulted with the San Francisco District Office of the DHS Drinking Water Program to determine whether or not the CWS proposal to drill a new well was necessary and justified. DHS advised that CWS proposal to add the new source is reasonable considering the shortage in the existing reliable production capacity and unknown outcome of the standby Well 2-01. DHS explained that even with the standby Well 2-01 on active duty that Dixon barely meets the maximum day demand, and given their limited storage of 0.75 MG, that Dixon would need another water source[1].

For example, during the 2004 inspection performed by DHS[2], DHS determined that the maximum day demand (MDD) for Dixon District in 2002 was 2.9 MGD. Total production capacity of the CWS-Dixon's active wells as of the last inspection was 4375 gallons per minute (6.3 MGD). Total reliable production capacity assuming one largest well being offline is approximately 5.1 MGD. At the time of the last inspection, supply was sufficient to meet the MDD adequately and comply with the Waterworks Standards based on available reliable production capacity. However, based on the 2005 Annual Report to the Drinking Water Program the recent MDD is 6 MGD. It means that even with standby Well 2-01 approved as an active source, Dixon would hardly meet their MDD especially considering the fact that there is not enough water storage in the distribution system (only 75,000 gallons storage). The DHS recommendation at the time was that Dixon needed at least 2.0 MG of additional storage. CWS responded that they would rely on water production to make up the difference.

CWS estimated costs of $327,000 for the new well site. DRA recommended adjusting the project cost estimate to $315,000. DRA based its

[1] Email dated August 24, 2006 between Sanitary Engineer, Department of Health Services, and Utilities Engineer, DRA Water Branch.

[2] CWSC-Dixon Annual Inspection Report, Dated March 15, 2004.

estimate on using the median price per square foot for real estate in Dixon based on properties sold during October 2006[3]. DRA used an overhead rate of 8% and 1% for labor.

5) Project 15148 – Replace Panel at Station 1

CWS proposed replacing the panel at Station 1 to improve system reliability and to allow for a generator installation in 2008 that will ensure system operation in event of power outage. Station 1 includes a well, the 75,000 gallon elevated storage tank and telemetry that controls eight system wells. DRA concurs with the need for this project but proposes some adjustments to the cost estimate.

CWS proposed the $75,600 cost estimate based on a similar project, Project 4243, that involved installing a new panel board for an estimated $48,600 dollars. The project justification and the cost breakdown were insufficient to justify the $75,600 cost. Typically, a cost breakdown includes the activity, number of work hours, hourly rate, cost of materials, overhead rates, and sufficient scope of work details to understand the work involved. CWS has not provided sufficient information to justify exceeding the cost estimate of the similar project #4342, consequently, DRA recommends that the Commission allow CWS $48,600 for this project.

6) Project 15284 – Install New Main

CWS proposed this project to improve fire flow and water quality. DRA concurs with the need for this project. DRA recommends adjusting the cost estimate by using a consistent construction overhead rate of 8%. With this adjustment, the resulting DRA cost estimate becomes $38,300 in lieu of the CWS cost estimate of $40,500.

[3] Downloaded from www.realestate.yahoo.com for City of Dixon on November 5, 2006.

7) Project 13434 – ½ Ton 4x4 Pickup

CWS proposed replacing vehicle V200046 at 6 years and 102,000 miles for a cost estimated at $31,900. DRA does not agree with fulfilling this request because the vehicle is not yet eligible for replacement according to the Department of General Services vehicle replacement criteria. DRA recommends deferring this vehicle replacement until the 2008-2009 budget year.

8) Non-Specific Capital Budget – 2007-2008

CWS proposed $59,200 for the 2007 non-specific capital budget. CWS uses a four-step process to adjust recorded data for inflation, calculate a three-year arithmetic mean, trend constant dollar mean values, and apply inflation factors to test year values[4]. DRA recommended using a ten-year average based on the actual non-specific expenditures from 1996 to 2005 to estimate the non-specific capital budget and provided a cost estimate of $47,960.

9) DRA concurred with the 2008-2009 projects submitted by CWS with the exception that DRA recommended adjustments to 5 specific projects and the non-specifics budget. These adjustments are listed in Table 7-C and described in paragraphs 10) through 14).

[4] CWS Report on the Results of Operation, for the Dixon District, page 47, paragraph 12.

Table 7-C

California Water Service Company
Dixon District
DRA Exceptions to 2008 Capital Expenditures Budget
(Dollars in Thousands)

Project	*Description*	*DRA*	*CWS*	*$ Diff.*
15479	Drill New Well	$ 961	$ 1,071	$ 110
15149	Add Generator	$ 49	$ 59	$ 11
15231	Hydraulic Model	$ -	$ 75	$ 75
14757	Replace Vehicle	$ 32	$ -	$ (32)
15231	Master Plan	$ -	$ 150	$ 150
	SUBTOTAL	$ 1,041	$ 1,355	$ 314
	Non Specifics	$ 49	$ 64	$ 15

10) Project 15479 – Drill New Well

DRA concurs with the need to complete this new well, as detailed in paragraph 4) regarding the related Project 15478, above. The cost breakdown provided by CWS for this million dollar project was insufficient. Generally accepted industry standards for cost breakdowns typically include the item or activity, a description, the quantity, the units, and the quantity and units of material and labor required to complete the scope of work. The cost breakdown that CWS provided was a list of eighteen items with their estimated cost and a total cost estimate of $1,070,492. DRA proposes adjusting the cost estimate to deduct the inconsistent costs for overhead, permits, and contingency. DRA assumed an 8% overhead rate, 20% contingency rate, and 1.25% permits rate. Consequently, DRA recommended that the project cost estimate should be revised to $960,493.

11) Project 15149 – New Generator Set

CWS proposed to install a generator at Station 1 to ensure that the station remains operational in the event of power failure. DRA concurs with the need for

this project. CWS provided a cost estimate for Project #4278 similar to the proposed project. Using the costs from the similar project, DRA adjusted the project to $48,594 based on escalating the project cost three years and using consistent construction overhead rates of 8%.

12) Project 15231 – Hydraulic Model; Project 15231– Water Supply and Facilities Master Plan

CWS proposed $75,000 for consultants to update the Dixon District hydraulic model and $150,000 for consultants to develop the water supply and facilities master plan. DRA does not concur with expenditures of $225,000 for professional service consultants. CWS provided insufficient analysis of alternatives to this expenditure and provided insufficient justification of the cost benefit. DRA recommends that the Commission not approve the expenses for each project. D.04-04-041 supports DRA's recommendation. In that case, CWS agreed to develop the water supply and facilities master plan using in-house personnel without adding to the cost of general office expenses.

> "The parties disagreed about certain capital expenses, especially those involving the preparation of water supply and facilities master plans (WSMP) for each of the four districts. The parties agreed that WSMP are more critical for some districts than others and that some of the plans can be prepared by CWS's in-house personnel. Specifically, the parties agreed on the recovery of costs for the preparation of the Dominguez WSMP. CWS, however, will prepare in-house WSMPs for Selma and Oroville without adding to the cost to the test year budgets.[5]"

> "In all districts in this proceeding, Cal Water requested capital projects for water supply and facilities master plans (WSMP). ORA recommended the Commission disallow these projects mainly because it hadn't been

[5] CPUC Decision 04-04-041 dated April 22, 2004, page 16.

> convinced of the need for the projects in all districts. Both parties agreed that a WSMP had been completed in 2001 in Palos Verdes. Furthermore, ORA contended that water supply planning is already a routine part of Cal Water's business. In its rebuttal, Cal Water contended that these plans serve as a basis for facilities construction and management for a twenty-year horizon and will help Cal Water justify future capital projects to the Commission. Cal Water further stated it did not have the expertise in its engineering department to complete these studies. Cal Water also pointed out that these plans would be less expensive if Cal Water had experienced personnel on staff to complete the studies. After discussions, Cal Water and ORA agree that WSMPs are prudent. However, ORA and Cal Water now agree that the plans for Oroville and Selma are less critical than for Dominguez-South Bay. Therefore, ORA agrees to allow a one-time cost in the 2004 capital budget of $135,000 for the WSMP in Dominguez-South Bay for $135,000 in the 2004 capital budget. Cal Water will complete WSMPs for Selma and Oroville with internal staff, but those capital projects will not be included in the test year budgets. Furthermore, ORA agrees that Cal Water should hire without adding to the operating expenses of the general office, the additional engineering complement necessary to complete future WSMP projects in-house."[6]

13) Project 13434 and 14747 – Replace Vehicle

In 2007 Project 13434, CWS proposed replacing vehicle V200046 at 6 years and 102,000 miles for a cost estimated at $31,900. DRA does not agree with fulfilling this request because the vehicle is not yet eligible for replacement according to the Department of General Services vehicle replacement criteria which is 8 years and 120,000 miles. DRA recommends deferring this vehicle

[6] Ibid, Attachment A to the Settlement, page 8 of 24.

replacement until the 2008-2009 budget year and purchasing it during Project 14757.

14) Non-Specific Capital Budget – 2008-2009

CWS proposed $63,900 for the 2008 non-specific capital budget. CWS uses a four-step process to adjust recorded data for inflation, calculate a three-year arithmetic mean, trend constant dollar mean values, and apply inflation factors to test year values[7] DRA recommended using a ten-year average based on the actual non-specific expenditures from 1996 to 2005 to estimate the non-specific capital budget and provided a cost estimate of $48,820.

[7] CWS Report on the Results of Operation, for the Dixon District, page 47, paragraph 12.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

PLANT IN SERVICE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	6,280.6	6,280.6	0.0	0.0%
Additions				
Gross Additions	629.9	700.4	70.5	11.2%
Capitalized Interest	11.7	13.0	1.3	10.7%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(46.3)	(46.3)	0.0	0.0%
Net Additions	595.3	667.0	71.7	12.0%
Plant in Service - EOY	6,875.9	6,947.6	71.7	1.0%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	6,875.9	6,947.6	71.7	1.0%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	6,875.9	6,947.6	71.7	1.0%
Additions				
Gross Additions	1,378.0	1,676.4	298.4	21.7%
Capitalized Interest	25.5	30.9	5.4	21.1%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(42.3)	(42.3)	0.0	0.0%
Net Additions	1,361.2	1,665.0	303.8	22.3%
Plant in Service - EOY	8,237.1	8,612.6	375.5	4.6%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	8,237.1	8,612.6	375.5	4.6%

1

CHAPTER 8: DEPRECIATION EXPENSE AND RESERVE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expense for Dixon District. The tables at the end of the Chapter provide DRA's and CWS estimates for Depreciation Reserve and Expense for Test Year 2007-2008 and escalation year 2008-2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for Test Year 2007-2008 and escalation year 2008-2009. Differences between DRA and CWS are due to different plant additions.

C. DISCUSSION

As part of its review, DRA compared the values reported in the GRC application with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite depreciation accrual rate[8] of 2.77% based on a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. The differences between CWS's and DRA's estimates are related to the differences in plant additions.

D. CONCLUSION

DRA reviewed and accepts CWS' methodology.

[8] CWS Workpapers, WP9C1

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	2,133.7	2,120.1	(13.6)	-0.6%
Accruals				
Transportation Equipment	0.8	1.0	0.2	25.0%
Contributed Plant	5.7	5.7	0.0	0.0%
Other Plant in Service	151.0	150.9	(0.1)	-0.1%
Total Accruals	157.5	157.5	0.0	0.0%
Retirements	(39.4)	(39.4)	0.0	0.0%
Depreciation Reserve - EOY	2,251.8	2,238.2	(13.6)	-0.6%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,251.8	2,238.2	(13.6)	-0.6%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	2,248.2	2,234.1	(14.1)	-0.6%
Accruals				
Transportation Equipment	0.9	1.0	0.1	11.1%
Contributed Plant	5.7	5.7	0.0	0.0%
Other Plant in Service	158.2	159.3	1.1	0.7%
Total Accruals	164.8	166.0	1.2	0.7%
Retirements	(36.4)	(36.4)	0.0	0.0%
Depreciation Reserve - EOY	2,376.6	2,363.7	(12.9)	-0.5%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,376.6	2,363.7	(12.9)	-0.5%

CHAPTER 9: RATEBASE

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of rate base for the Dixon District. Tables 9-1 and 9-2 at the end of this report compare DRA's and CWS's estimates. Differences are due to different estimates of plant additions, advances, materials and supplies, depreciation reserves, and working cash allowances.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for Dixon District as follows in Table 9-A below:

Table 9-A
California Water Service Company
Dixon District
Test Year 2007-2008
DRA Recommended Weighted Average Rate Base Summary

DRA Weighted Average Rate Base ($000)	CWS Weighted Average Rate Base ($000)	CWS Exceeds DRA Amount By ($000)	CWS Exceeds DRA Amount By %
$4,084.9	$4,227.0	$142.1	3.5%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for Dixon District.

C. DISCUSSION

1) Materials and Supplies

DRA estimated expenses for materials and supplies for Test Year 2007-2008 based on the five-year average for 2001 to 2005 which results in an allowance of $31,800 for materials and supplies. CWS used the three-year average of 2003 to 2005 and proposed $35,800 for materials and supplies.

2) Working Cash Allowance

In the previous GRC, CWS had not updated its lead/lag studies since the late 1980s. CWS managers had indicated to DRA that a project was underway to update the lead/lag study. CWS provided the new lead/lag study with the workpapers during this GRC application. DRA reviewed the new lead/lag study and noted that it is comprehensive and well-documented.

CWS produced a lead/lag calculation of working cash that indicates a positive working cash allowance of $89,800 for Test Year 2007-2008 and $91,900 for Escalation Year 2008-2009. DRA disagreed with some of the lag days included in the CWS calculation and recommended some adjustments to CWS' lead/lag calculation and the estimated working cash allowance. DRA recommends positive working cash allowance of $50,800 for Test Year 2007-2008 and $42,600 for Escalation Year 2008-2009.

DRA estimates different lag days than CWS for several of the CWS expenses such as ad valorem taxes, state corporation franchise tax, and federal income tax. DRA calculated the average lag days for ad valorem taxes at 70.5 days instead of the 41 days estimated by CWS. DRA estimated the lag days for State corporation franchise tax and federal income tax to be 93 days. In D.03-09-021 which determined General Office expenditures, CWS and DRA agreed that 93

lag days fairly represents the timing and amount of taxes paid[9]. DRA recommends using 93 days rather than the 37.0 days and 40.9 days, respectively, estimated by CWS.

3) Net to Gross Multiplier

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. DRA recommends that the net-to-gross multipliers shown in the table below be applied in developing the revenue requirement change calculation for the Test Year 2007-2008. CWS and DRA used the same methodology to calculate the net-to-gross multiplier.

Table 9-B
California Water Service Company
Dixon District
Net to Gross Multipliers

DRA Net to Gross Multiplier	CWS Net to Gross Multiplier
1.78530	1.78530

[9] CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	6,875.9	6,947.6	71.7	1.0%
Materials & Supplies	31.8	35.8	4.0	12.6%
Working Cash - Lead-Lag	50.8	89.8	39.0	76.8%
Amt withheld from Employees	(0.5)	(0.5)	0.0	0.0%
Wtd. Avg. Depr. Res.	(2,251.8)	(2,238.2)	13.6	-0.6%
Advances	366.3	352.4	(13.9)	-3.8%
Contributions	166.6	166.6	0.0	0.0%
Reserved Amort.Intangibles	19.8	19.8	0.0	0.0%
Deferred Taxes	287.3	287.3	0.0	0.0%
Unamortized ITC	13.7	13.7	0.0	0.0%
General Office Alloc	132.0	132.0	0.0	0.0%
Taxes on - Advances	85.6	85.6	0.0	0.0%
Taxes on - CIAC	14.8	14.8	0.0	0.0%
Average Rate Base	4,084.9	4,227.0	142.1	3.5%
Interest Calculation:				
Avg Rate Base less work cash	4,084.9	4,101.9	17.0	0.4%
x Weighted Cost of Debt	2.890%	2.890%	0.00%	0%
Interest Expense	118.1	118.5	0.5	0.4%
less Cap. Interest	(11.7)	0.0	11.7	-100.0%
Net Interest Expense	106.3	118.5	12.2	11.5%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	8,237.1	8,612.6	375.5	4.6%
Material & Supplies	35.8	35.8	0.0	0.0%
Working Cash - Lead-Lag	42.6	91.9	49.3	115.6%
Amt withheld from Employees	(0.5)	(0.5)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(2,376.6)	(2,363.7)	12.9	-0.5%
Advances	338.5	338.5	0.0	0.0%
Contributions	162.4	162.4	0.0	0.0%
Reserved Amort.Intangibles	20.9	20.9	0.0	0.0%
Deferred Taxes	311.0	311.0	0.0	0.0%
Unamortized ITC	13.1	13.1	0.0	0.0%
General Office Alloc	136.3	136.3	0.0	0.0%
Taxes on - Advances	81.6	81.6	0.0	0.0%
Taxes on - CIAC	13.2	13.2	0.0	0.0%
Average Rate Base	5,323.6	5,761.3	437.7	8.2%
Interest Calculation:				
Avg Rate Base less work cash	5,323.6	5,634.1	310.5	5.8%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	153.9	162.8	9.0	5.8%
less Cap. Interest	(11.7)	0.0	11.7	-100.0%
Net Interest Expense	142.1	162.8	20.7	14.6%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.26162%	0.26162%
2) 1-Uncoll (100%-line 1)	99.73838%	99.73838%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.26162%	0.26162%
8) 1-Subtotal (100%-line7)	99.73838%	99.73838%
9) CCFT (line 8 * 8.84%)	8.81687%	8.81687%
10) FIT (line 8 * 35%)	34.90843%	34.90843%
11) Total taxes paid (ln 7+ln 9+ln 10)	43.98693%	43.98693%
12) Net after taxes (1-line 11)	56.01307%	56.01307%

Net-to-Gross Multiplier (1/line 12) = 1.78530 (DRA)

1 Net-to-Gross Multiplier (1/line 12) = 1.78530 (Utility)

CHAPTER 10: RATE DESIGN

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations on rate design for CWS rate increase application for its Dixon District. The present rates for General Metered Service used by CWS in their application became effective on January 1, 2006 and September 9, 2003 for Service to Privately Owned Fire Protection Systems. The proposed rates are those found in CWS workpapers.

CWS currently provides water service in its Dixon District under the following schedules:

DX-1	General Metered Service
DX-4	Service to Privately Owned Fire Protection Systems

B. SUMMARY OF RECOMMENDATIONS

CWS proposes to design rates for General Metered Service to recover 50 percent of the fixed costs through the service charge and the remainder through increasing quantity rates. The method for General Metered Service meets the requirements set forth in Decision D.86-05-064. CWS proposes to use the Service Charge ratios from CWS' 1991 general rate case filings. DRA does not object to these ratios. However, DRA's proposed rates differ from CWS' because of different recommended revenue requirements.

CWS' other rate change request involves implementation of a tiered rate structure (increasing block rates) along with a Water Revenue Adjustment Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared its analysis of rate design with the understanding that CWS' current GRC would

be divided into two phases with the second phase addressing CWS' requests for increasing block rates, WRAM and FCBA. CWS subsequently submitted a compliance filing A.06-10-026, requesting the Commission to address these issues. CWS submitted its compliance filing on October 26, 2006. Consequently, in this report, DRA addresses rate design from CWS' approved rate design and defers addressing increasing block rates, WRAM and FCBA to the compliance filing. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume the absence of WRAM and FCBA and a rate design that recovers 50 percent of the fixed costs through the service charge and the remainder through a single quantity rate.

C. DISCUSSION

Concerning Privately Owned Fire Protection Service, CWS proposes to continue charging for Privately Owned Fire Protection Service according to the size of the connection. DRA finds this approach reasonable because the proposed rates are consistent with rates approved for other CWS' districts. DRA's proposed rates will differ from CWS' because DRA recommends a different revenue requirement.

D. CONCLUSION

As the vast majority of CWS' proposed rate design will be addressed in the compliance filing, DRA concludes that for this general rate case, it would be prudent for the Commission to adopt the CWS rate design from its last GRC. Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the adopted rates will differ from CWS' because DRA recommends a different revenue requirement. DRA recommends the Commission adopt rates for CWS based on DRA's revenue requirement.

CHAPTER 11: CUSTOMER SERVICE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on customer service.

B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in this district satisfactory after reviewing CWS filings and responses to DRA data requests.

C. DISCUSSION

Table 10-A presents a summary of CWS customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of the total number of customers in the Dixon district.

Table 10-A
Dixon Customer Service Complaints

Type	2001	2002	2003	2004	2005	2006*
Taste and Odor	0	0	1	0	0	1
Color	0	0	0	0	1	5
Turbidity	0	0	0	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	0	0	0	0	0	10
Illness-Waterborne	0	0	0	0	0	0
Air	0	0	0	0	0	0
Leaks	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	0	0	1	0	1	16
No. of Customers	2,839	2,845	2,853	2,856	2,876	2,897
Total as % of Customers	0.00%	0.00%	0.04%	0.00%	0.03%	0.55%

* Up to October 2006

CWS' records indicate that the numbers of service complaints are low relative to the number of customers for the years 2001 to 2005. Customer service complaints are high in 2006 compared to previous years. CWS replied in a data response that there was no unusual incident that caused the spike of complaints about pressure in 2006 and it does not appear to be correlated to any specific water quality changes or plant incidents.

D. CONCLUSION

DRA recommends that the Commission finds CWS' customer service to be satisfactory.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on the special requests made by CWS for the Dixon District.

B. SUMMARY OF RECOMMENDATIONS

(a) **CWS requests a finding from the Commission that the district provides water service that meets or exceeds state and federal drinking water standards and General Order 103 (Exhibit F, page 2).**

DRA evaluated water quality issues by reviewing CWS written testimony of Chet Auckly, reviewing annual inspections reports, and consulting with Sanitary Engineers of the Department of Health Services Drinking Water Field Operations (DHS). DHS confirmed that the last Public Water System Annual Inspection of Dixon District was January 28, 2004. The Dixon District has not exceeded any maximum contaminant level (MCL) or deviated from accepted water quality procedures since the last GRC in 2003. DHS has not cited the district since the last GRC. And Dixon District is meeting the applicable federal and state drinking water standards. DHS did not have other noteworthy issues or concerns regarding water supply or water storage capacity, water quality or compliance with regulations at this district other than comments noted in the last inspection report. One issue was that Dixon does not have sufficient storage capacity according to the Water Works Standards; Dixon has 0.75 MG of tank storage available vs. minimum of 2.0 MG suggested. CWS justified the insufficient storage capacity by letter to DHS[10] and DHS subsequently allowed

[10] Letter from Director of Water Quality and Environmental Affairs, CWSC, dated May 5, 2004, addressed to District Engineer-San Francisco District, regarding Dixon System No. 4810002 Annual Inspection Response.

that Dixon water system may continue to operate with the existing storage capacity as long as Dixon has sufficient water available to meet its maximum day demand adequately and comply with the Waterworks Standards based on available reliable production capacity[11]. Dixon District will increase its available reliable production capacity by adding another source as proposed in the project justification to drill a new well (Project 15479, 2008).

The Dixon Annual Inspection Report dated March 15, 2004 stated in part, that:

> "CWSC-Dixon water system is generally in good condition and capable of providing potable water to the public….The system is well maintained and operated by conscientious staff.12"

(b) **The Water Revenue Adjustment Mechanism request is excluded from the scope of this proceeding.**

(c) **The offset rate increase to reflect General Office allocation request is excluded from the scope of this proceeding.**

(d) **GO Synergy Memorandum Account**

CWS requests to amortize the General Office synergies memorandum account adopted in D. 03-09-021 and merger savings established in D. 04-04-041. DRA reviews and agrees with CWS' request to amortize $65,790.

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[11] Letter from Department of Health Services, San Francisco District Senior Sanitary Engineer, dated May 24, 2004, addressed to Director of Water Quality and Environmental Affairs, regarding annual inspection.

[12] Department of Health Services Annual Inspection of California Water Service Company – Dixon, System No. 4810002, dated March 15, 2004 reported by Sanitary Engineer and addressed to Director of Water Quality and Environmental Affairs, page 9 of 10.

(e) **CWS requests to amortize the balancing and memorandum account balances as ordered in D.06-04-037**

As of June 30, 2006, the balancing accounts included in CWS' Exhibit I shows an over collection of $17,664 or 1.40% of the annual revenue. DRA reviewed and agreed that the balancing accounts should be amortized.

Ordering paragraph 3 of D.06-04-037 states that "Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under-or over-collections in those accounts subject to a reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under-or over-collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility."

CWS' request to amortize its purchased water and pump tax balancing accounts is in compliance with ordering paragraph 3 of D. 06-04-037.

(f) **CWS is requesting an early, *ex parte* order to update Rule 15 to increase the water supply special facilities fee in this district. (Exhibit E, page 6)**

DRA recommends that CWS' Dixon District be afforded a $7,200 increase in Contributions in Aid of Construction for each of the years 2007 through 2009, rather than the requested decrease of $4,200 for each of the years 2007 through 2009. CWS' request for a $13,900 reduction to Advances for Construction for each of the three forward looking years 2007 through 2009 be is deemed reasonable.

DRA recommends that the requested lot fees be forecasted at an amount of $2,320 per lot rather than the $1,000 as requested, and be included in Advances

for Construction. CWS' requested amount of 8 service connections for the three year forward looking period should be adopted.

DRA recommends that the amount for lot fees of $18,560 be included in Advances for Construction. This equates to an increase in Advances for Construction, and thereby a decrease to forecasted rate base for test year 2007 and the ensuing attrition years. The recommended treatment for lot fees reflects the intent of what the Commission ordered for Apple Valley Water District, in Decision (D.) 05-12-020 in Application (A.) 05-02-005.

For the Dixon District, CWS requests an increase in customer growth of 8 connections. Associated with the forecasted increase in customer growth is an amount of $1,000 per lot, which would equate to $8,000. DRA takes no exception to the forecasted growth of 8 service connections, but does take issue with the requested $1,000 per lot. DRA is of the opinion that an amount of $2,320 per lot would be more realistic and bases this recommended amount on what the Selma district reflects in its filed work papers. DRA's recommendation is based on the Selma District's forecasted cost of approximately $2,320 on a per customer basis, for the addition of one new well. DRA is of the opinion that the $2,320 would be a more realistic forecast for lot fees. Accordingly, DRA recommends lot fees of $2,320 for 8 new connections which equates to $18,560. CWS forecasts a net decrease of $4,200 for 2006, 2007 and 2008 pertinent to Contributions in Aid of Construction ("CIAC") and decreases of $13,900 in refunds and transfers for each of the years 2006, 2007 and 2008. No additions to advances for construction are forecasted. The aforementioned amount of $13,900 represents reductions to advances for construction, which in turn increases rate base. The above amounts are adjusted to the beginning balances in 2006 as illustrated below:

Contributions in Aid of Construction

	2007	2008	2009

Gross Additions	$1,500	$1,500	$1,500
Depreciation	($5,700)	($5,700)	($5,700)
Net Reductions	($4,200)	($4,200)	($4,200)

Advances for Construction

	2007	2008	2009
Additions	$0	$0	$0
Deposits and Transfers	($13,900)	($13,900)	($13,900)
Net Reductions	($13,900)	($13,900)	($13,900)

Accordingly the overall effect of the above is a reduction to the beginning balance of CIAC of $4,200 for test year 2007, and attrition years 2008 and 2009. This results in a total decrease of $12,600 for contributions for the three year future period.

For Advances for Construction, a reduction to the beginning balance of $13,900 for test year 2007, and attrition years 2008 and 2009, is requested. DRA compared the forecasted changes to what the Dixon District actually recorded for the period 2001 through 2005 for CIAC and Advances. For the 5 year recorded period of 2001 through 2005, CWS' Dixon District recorded an increase in CIAC of $36,100, which equates to approximately $7,200 in average increases per year. For the same 5 year recorded period, i.e. 2001 through 2005, CWS reflected a decrease of $103,300 to Advances to Construction, which equates to approximately a $20,700 annual decrease. The decreases were specifically comprised of refunds and transfers.

DRA is of the opinion that Contributions in Aid of Construction should reflect an increase, to better reflect what will probably transpire during the forecast period coupled with the forecasted small growth.

DRA is of the opinion that the requested amount of annual decreases to Advances for Construction for the three year forward looking period of $13,900 is reasonable.

DRA is of the opinion that its recommended lot fees of $18,560 should be included in Advances for Construction, which was mandated for Apple Valley Ranchos Water Company in D. 05-12-020. Specifically, D.05-12-020 states that for Apple Valley's Rule 15, the cost of all necessary facilities to serve new customers, including wells, tanks, and treatment facilities, when clearly attributable to new customers, should be recovered in the facilities charge and not be imposed on the existing customer base.

DRA is of the opinion that an increase for CWS' Dixon District CIAC in the amount of $7,200 for the three forward looking years is reasonable as discussed above. DRA is of the opinion that lot fees in the amount of $18,560 is reasonable for the three forward looking years. DRA takes no exception to the CWS' requested amounts for Advances for Construction and the amount of service connections.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 5, 2007, CWS should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
DIXON DISTRICT

Item	DRA 2008-09 (Thousands of $)	DRA 2009-010	% increase	
Operating revenues	1,716.6	1,917.8	11.7%	Esc. Factor
Operation & Maintenance	546.9	556.2	1.7%	1.017
Administrative & General	45.2	46.0	1.8%	1.018
G.O. Prorated Expense	245.1	249.3	1.7%	1.017
Depreciation & Amortization	158.2	160.9	1.7%	1.017
Taxes other than income	66.4	67.5	1.7%	1.017
State Corp. Franchise Tax	29.4	45.6	55.0%	
Federal Income Tax	183.6	247.6	34.9%	
Total operating expenses	1,274.8	1,373.1	7.7%	
Net operating revenue	441.9	544.7	23.3%	
Rate base	5,323.6	6,562.3	23.3%	
Return on rate base	8.30%	8.30%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
YOKE W. CHAN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1 and 13 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
VIBERT GREENE

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4 In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my
analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE W. STEINGASS, P.E

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:

- Chapter 7 – Plant in Service for Dixon, Oroville and Willows Districts
- Chapter 8 – Depreciation Expenses and Reserve
- Chapter 9 – Rate Base and Net to Gross Multiplier;
- Chapter 12 – Special Requests related to Water Quality in Dixon, Oroville and Willows Districts and Well Refurbishment in King City and Willows Districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
KATIE LIU

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for DRA's Water Branch Report On Customer Service For California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TATIANA OLEA

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over $115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAMELA T. THOMPSON

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Pamela T Thompson and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Arts degree in Mathematics and Spanish Literature from Dominican University in San Rafael in May 1974 and a Masters of Business Administration degree in Accounting from Golden Gate University in June 1978. I am also a licensed Certified Public Accountant in the State of California.

Q.3 Please summarize your business experience.

A.3 I graduated from Dominican College with a Bachelor of Arts degree in Mathematics and Spanish Literature in 1974. I subsequently graduated in June 1978 from Golden Gate University with a Master of Business Administration degree in Accounting. I am a licensed Certified Public Accountant in the State of California. I joined the staff of the California Public Utilities Commission in August 1976. In my capacity as a Financial Examiner, I have examined the financial records of various utilities under the jurisdiction of the Commission, including gas, electric, and water utilities. I have testified numerous times before the Commission.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for portion of Chapter 12 for the King City, Willows, Oroville and Dixon districts respectively, in the areas of Contributions, Advances and Lot Fees in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.